

# FDIC State Profile

Spring 2005

## Alaska

Alaska's economy continued to outperform the nation in 2004 in spite of challenges.

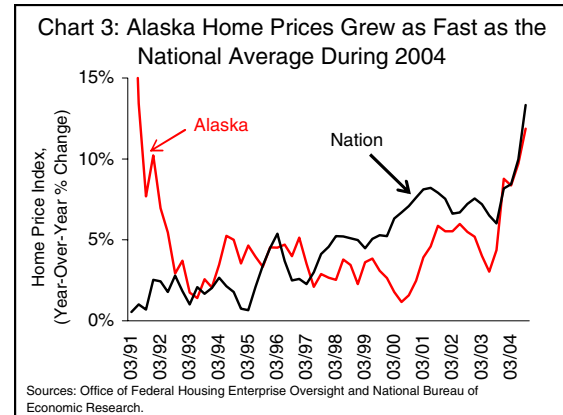
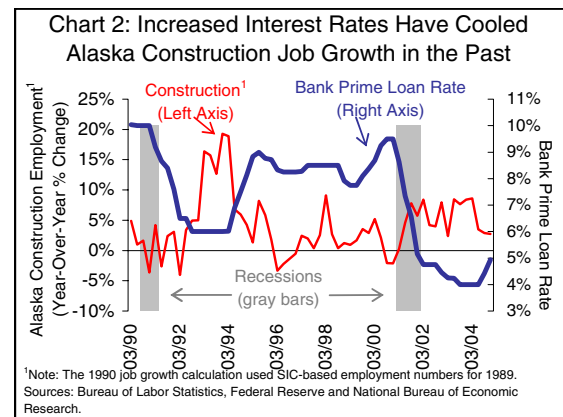
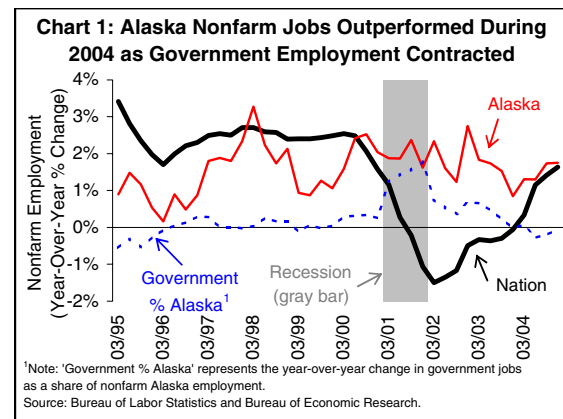
- Nonfarm employment in Alaska outgrew the nation during 2004, primarily because of the 1,400 jobs added by the trade, transportation, and utilities sector (See Chart 1).
- Alaska experienced above-average growth despite the very large but lackluster government sector that lost 200 jobs in 2004, all of which were in the federal and local government subsectors. Although an increase of 31 percent in North Slope oil prices during 2004 may help balance the state budget in fiscal year 2005, area analysts do not expect a significant near-term rebound in total government employment because of pressures to reduce government spending.

Alaska's construction sector may slow in 2005.

- The construction sector, which reported a robust job growth rate of 2.7 percent and added 500 jobs in 2004, may slow in 2005 if short-term interest rates continue to increase (See Chart 2). Already, the number of construction permits for 1-4 family homes in Alaska dropped when comparing 2004 with 2003.
- In concert with the growth in the state's construction sector in 2004, the median concentration of construction and development (C&D) loans among insured institutions based in Alaska increased in 2004 from 40 percent to 55 percent of Tier 1 capital. This ranked 13<sup>th</sup> highest in the nation. In 2004, the median C&D past-due ratio among the state's institutions doubled, rising from 0.21 percent to 0.43 percent. Should interest rates continue to rise, heightened financing costs among real estate investors may hamper property value appreciation as well as curb the outlook for future construction projects, further challenging borrower repayment capacities.

Alaska's residential sector benefited from low interest rates.

- After trailing the nation for six years, home prices rose nearly in lock step with the nation with a 9 percent year-over-year appreciation rate during fourth quarter 2004 (See Chart 3).



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- Improved home prices have helped to reduce the foreclosure rate and maintain the personal bankruptcy rate at one of the lowest levels in the nation. The annual foreclosure rate in Alaska fell from its first quarter 2001 pre-recession peak of 2.5 percent, then the highest in the nation, to 0.8 percent as of third quarter 2004, ranking 47th lowest in the nation. The personal bankruptcy rate in Alaska remained the lowest in the nation for the tenth consecutive year.
- Consistent with foreclosure and personal bankruptcy trends, median 1-4 family and consumer past-due loan ratios decreased significantly year-over-year as of December 2004. However, should the state's job growth remain sluggish and home values stagnate, household credit trends in Alaska may experience some deterioration.

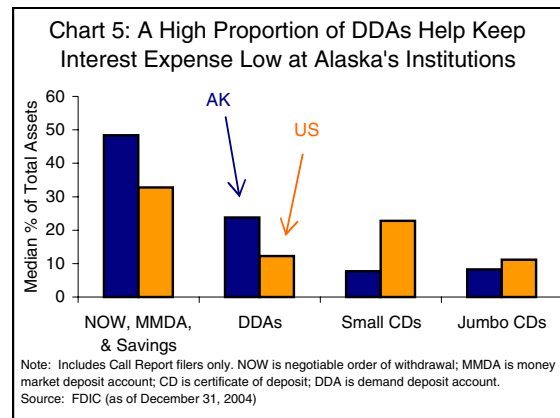
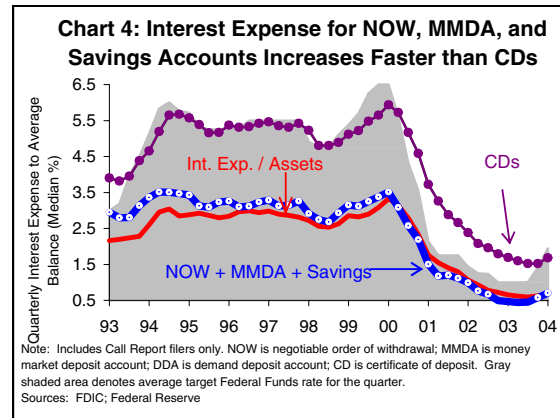
### Net interest margin (NIM) pressure at individual institutions results in lower earnings performance.

- The median return on average assets ratio for the state's insured institutions fell to 0.95 percent as of year-end 2004, down from 1.46 percent a year earlier and below the 1.02 percent reported by all institutions nationwide. Despite a small increase in the median NIM year-over-year, three of the seven institutions headquartered in Alaska reported significantly lower NIMs year-over-year as of December 31, 2004. This has pressured earnings and contributed to the lower overall earnings performance. Lower median noninterest income to average asset ratios also negatively affected profits. Decline in noninterest income is attributed in part to lower gains on loan sales, merchant fees, insurance income, and loan servicing fees.

### Rising interest rates drive interest expense up from its lowest level in a decade.

- The median interest expense to average asset ratio fell year-over-year as of December 31, 2004. However, after being at its lowest level in a decade in the second quarter, the quarterly median interest expense to average asset ratio for insured institutions headquartered in Alaska increased in both third and fourth quarter 2004. Trends in quarterly interest expense mirrored the Federal Funds rate, which began to increase late in second quarter 2004 (See Chart 4). At year-end 2004, certificates of deposit decreased to funding a median 16 percent of assets, down from 19 percent one-year ago, while Negotiable Order of Withdrawal, Money Market Demand Accounts, and other savings accounts (non-maturity deposits) increased to funding a median 48 percent of assets, up from 46 percent one-year ago. This funding shift may partially explain the sharper increase in the cost of non-maturity deposits compared with certificates of deposit.

- Median interest expense, which was the lowest in the nation, has been held down not only by low interest rates, but also by the high level of demand deposits (DDA accounts). DDA accounts made up 24 percent of assets at year-end 2004, compared with 12 percent for institutions nationwide (See Chart 5).



## Alaska at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	0.8%	2.7%	1.6%	2.0%
Manufacturing (4%)	2.1%	-1.2%	5.2%	-5.0%	1.7%
Other (non-manufacturing) Goods-Producing (9%)	2.2%	1.4%	2.8%	1.8%	6.7%
Private Service-Producing (60%)	2.6%	1.3%	2.8%	-0.4%	1.9%
Government (27%)	-0.2%	0.0%	2.4%	6.7%	0.9%
Unemployment Rate (% of labor force)	7.6	7.8	7.4	6.3	6.2

<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	3.6%	3.8%	7.8%	5.8%
Single-Family Home Permits	-25.5%	12.6%	-21.5%	43.6%	31.6%
Multifamily Building Permits	-17.0%	77.2%	29.5%	50.5%	70.7%
Existing Home Sales	10.9%	20.0%	9.5%	16.7%	20.0%
Home Price Index	9.2%	8.8%	5.2%	5.5%	2.5%
Bankruptcy Filings per 1000 people (quarterly level)	0.67	0.62	0.67	0.61	0.60

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	7	7	8	8	8
Total Assets (in millions)	3,893	3,863	7,183	6,606	6,478
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	1	1	1	1	1

<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.69	2.20	1.84	1.27	2.02
ALLL/Total Loans (median %)	1.05	1.17	1.32	1.33	1.28
ALLL/Noncurrent Loans (median multiple)	1.70	1.69	1.48	2.19	1.69
Net Loan Losses / Total Loans (median %)	0.16	0.05	0.30	0.14	0.14

<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	9.29	8.92	8.80	8.55	8.87
Return on Assets (median %)	0.95	1.46	1.31	1.24	1.22
Pretax Return on Assets (median %)	1.33	1.59	1.61	1.74	1.87
Net Interest Margin (median %)	4.88	4.86	5.01	4.90	5.01
Yield on Earning Assets (median %)	5.42	5.89	6.48	7.77	8.37
Cost of Funding Earning Assets (median %)	0.69	0.84	1.42	2.70	3.38
Provisions to Avg. Assets (median %)	0.09	0.12	0.21	0.13	0.07
Noninterest Income to Avg. Assets (median %)	0.94	1.21	1.05	0.88	1.14
Overhead to Avg. Assets (median %)	3.78	3.86	3.75	3.83	3.99

<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	50.8	47.7	51.8	49.0	49.0
Noncore Funding to Assets (median %)	14.2	17.7	20.5	18.5	19.8
Long-term Assets to Assets (median %, call filers)	16.8	11.5	15.8	19.5	21.4
Brokered Deposits (number of institutions)	2	2	1	0	1
Brokered Deposits to Assets (median % for those above)	1.7	1.7	1.1	0.0	1.3

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	115.8	122.8	113.5	126.6	102.2
Commercial Real Estate	299.7	293.8	202.5	185.3	169.8
<i>Construction &amp; Development</i>	54.9	39.7	34.5	29.7	23.9
<i>Multifamily Residential Real Estate</i>	6.9	6.5	5.4	6.0	9.4
<i>Nonresidential Real Estate</i>	267.0	263.5	149.9	113.6	111.1
Residential Real Estate	84.7	80.8	109.2	126.4	124.3
Consumer	35.1	36.5	46.1	54.0	61.2
Agriculture	2.2	0.2	1.7	1.8	1.8

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Anchorage, AK	5	3,038	< \$250 mil.	4 (57.1%)
Fairbanks, AK	6	761	\$250 mil. to \$1 bil.	2 (28.6%)
			\$1 bil. to \$10 bil.	1 (14.3%)
			> \$10 bil.	0 (0%)